
FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 12 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 26, 2021

Summit State Bank

(Exact Name of Registrant as Specified in Charter)

California
(State of Other Jurisdiction
Of Incorporation)

32203
(FDIC
Certificate Number)

94-2878925
(I.R. S. Employer
Identification No.)

500 Bicentennial Way
Santa Rosa, CA
(Address of Principal Executive Offices)

95403
(Zip Code)

Registrant's Telephone Number, Including Area Code, 707-568-6000

(Former Name or Former Address, if Changes Since Last Report)

Check the Appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communication pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	NASDAQ Global Market

Item 2.02. Results of Operations and Financial Condition.

On October 27, 2021, the registrant issued the press release attached hereto as Exhibit 99.1 and incorporated herein by reference regarding the declaration of dividend and results of operations for the three and nine months ended September 30, 2021.

Common stock cash dividend of \$0.12 per share declared on October 26, 2021, payable on November 18, 2021 to shareholders of record on November 11, 2021.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits:

The exhibit list called for by this item is incorporated by reference to the Exhibit Index filed as part of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Dated: October 27, 2021

SUMMIT STATE BANK

By: /S/ Camille Kazarian
Camille Kazarian
*Executive Vice President
and Chief Financial Officer
(Duly Authorized Officer)*

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release of Summit State Bank dated October 27, 2021, announcing results of operation for the three and nine months ended September 30, 2021 and declaration of quarterly dividend.

Summit State Bank Reports 29% Increase in Net Income to \$3,796,000 for Third Quarter 2021 and Declaration of Dividend

SANTA ROSA, CA – (October 27, 2021) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2021 of \$3,796,000 and diluted earnings per share of \$0.63. This compares to net income of \$2,954,000 and diluted earnings per share of \$0.49 for the quarter ended September 30, 2020. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend

The Board of Directors declared a \$0.12 per share quarterly dividend on October 26, 2021 to be paid on November 18, 2021 to shareholders of record on November 11, 2021.

In September the Bank announced that its Board of Directors declared a 10% stock dividend to be paid on or about November 4, 2021 to shareholders of record as of the close of business on October 29, 2021. Each shareholder of the Bank will receive one additional share of stock for every ten shares owned on the record date of October 29, 2021. Cash will be paid in lieu of fractional shares based on the closing price of the common stock on the record date. These stock dividends will also receive a \$0.12 per share quarterly dividend to shareholders of record on November 11, 2021 to be paid on November 18, 2021.

Net Income and Results of Operations

Net income increased \$842,000 or 29% the third quarter of 2021 compared to third quarter of 2020. Net interest income increased to \$9,585,000 in the third quarter of 2021 compared to \$7,740,000 in the third quarter of 2020.

“Last month the Bank announced that it will be issuing a 10% stock dividend to each shareholder of record as of the close of business on October 29, 2021,” said Brian Reed, President and CEO. “We are pleased to see that the Bank’s ongoing financial performance can deliver meaningful returns like this to our shareholders. We are optimistic about the Bank’s long-term outlook as we see many local businesses recovering from the impacts of COVID and we continue growing in our communities through strong banking relationships.”

The net interest margin for the third quarter of 2021 was 4.31%, annualized return on average assets was 1.68% and annualized return on average equity was 18.54%. In the third quarter of 2020, net interest margin was 3.77%, annualized return on average assets was 1.41% and annualized return on average equity was 16.05%. The Bank is experiencing growth in its margin due to a reduction in cost of funds; this reduction was caused by repricing high-cost maturing deposits and an increase in low-cost, non-maturing deposit volume.

Interest income increased to \$10,601,000 in the third quarter of 2021 compared to \$9,170,000 in the third quarter of 2020, this was an increase of 16%. The change is attributable to a \$1,513,000 increase in interest income from growth in the Bank's core loan portfolio and a \$109,000 decrease in interest income net of fees and costs due to reduction of Paycheck Protection Program ("PPP") loan payoffs. The fees collected from all SBA PPP loans are amortized over the life of the loan and upon forgiveness the remaining fee income, net of cost, is taken into interest income. In the third quarter of 2021, the Bank recorded \$632,000 in PPP fees net of costs; the Bank has \$565,000 in remaining PPP fees net of costs left to amortize.

"Since the onset of the pandemic, the Bank funded over 860 PPP loans totaling \$134,000,000. We have actively worked with our customers who received over \$101,900,000 in forgiveness from the SBA to date," said Reed. "We are diligently assisting our customers to request forgiveness from the SBA for the remaining balance of PPP loans that are on our books. Currently the Bank has approximately \$32,100,000 in SBA loans remaining to be forgiven."

Loans increased 8% to \$792,504,000 at September 30, 2021 compared to \$726,859,000 at September 30, 2020. Excluding PPP loans, loans increased 21% to \$760,378,000 at September 30, 2021 compared to \$630,149,000 at September 30, 2020. Total deposits increased 9% to \$749,007,000 at September 30, 2021 compared to \$688,026,000 at September 30, 2020.

Non-interest income increased in the third quarter of 2021 to \$1,359,000 compared to \$1,188,000 in the third quarter of 2020. The Bank recognized \$951,000 in gains on sales of SBA guaranteed loan balances in the third quarter of 2021 compared to \$786,000 in gains on sales of SBA guaranteed loans balances in the third quarter of 2020.

Operating expenses increased \$1,316,000 or 31% in the third quarter of 2021 to \$5,550,000 compared to \$4,234,000 in the third quarter of 2020. The increase in expenses is primarily due to a \$533,000 increase in Stock Appreciation Rights benefits, a \$305,000 increase in commissions directly related to the Bank's loan portfolio growth, a \$207,000 increase in salaries and benefits net of deferred fees and costs, a \$127,000 increase in marketing and donations, and an \$80,000 increase in reserve for undisbursed loans. The Bank's efficiency ratio increased from 47.44% for the third quarter of 2020 to 50.72% for the third quarter of 2021.

Nonperforming assets were \$416,000 or 0.05% of total assets at September 30, 2021 compared to \$267,000 or 0.03% on September 30, 2020. The nonperforming assets on September 30, 2021 consist of 2 loans that are secured by real property and another loan that has a State of California guarantee.

The Bank had no provision expense in the third quarter of 2021. The allowance for credit losses to total loans including SBA-guaranteed PPP loans was 1.42% on September 30, 2021 and 1.14% on September 30, 2020. Excluding \$32,126,000 of PPP loan balances, the non-GAAP financial measurement ratio of allowance for credit losses increases to 1.48% and 1.31% on September 30, 2021 and 2020, respectively. The Bank also maintains an

allowance for credit loss on unfunded loan commitments, the balance is \$536,000 at September 30, 2021 compared to \$381,000 at September 30, 2020.

Since the onset of the COVID pandemic, the Bank processed Credit Relief requests for 120 loans totaling \$176,230,000. As of September 30, 2021, all deferred loans are now current and customers are paying on those loans as agreed with the exception of one which is still on principal and interest deferral. This loan totals \$992,000 or 0.1% of the loan portfolio excluding PPP loans, has a loan to value of 56%, and is real estate secured.

Reed further explains “we remain diligent about providing support to our customers as we navigate in the uncertain post-pandemic times. Our ability to maintain improved financial performance in our core operations is a testament to our unwavering support of our customers, communities and employees.”

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$923 million and total equity of \$82 million at September 30, 2021. Headquartered in Sonoma County, the Bank specializes in providing exceptional customer service and customized financial solutions to aid in the success of local small businesses and nonprofits throughout Sonoma County.

Summit State Bank is committed to embracing the diverse backgrounds, cultures, and talents of its employees to create high performance and support the evolving needs of its customers and the community it serves. At the center of diversity is inclusion, collaboration, and a shared vision for delivering superior service to customers and results for shareholders. Presently, 65% of management are women and minorities with 60% represented on the Executive Management Team. Through the engagement of its team, Summit State Bank has received many esteemed awards including: Best Business Bank, Best Places to Work in the North Bay, Top Community Bank Loan Producer, Raymond James Bankers Cup, and Super Premier Performing Bank. Summit State Bank’s stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank’s control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management’s view only as of the date hereof.

The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 10,159	\$ 8,753	\$ 29,752	\$ 24,903
Interest on deposits with banks	11	10	25	61
Interest on investment securities	360	364	1,139	1,126
Dividends on FHLB stock	71	43	176	189
Total interest income	<u>10,601</u>	<u>9,170</u>	<u>31,092</u>	<u>26,279</u>
Interest expense:				
Deposits	720	1,138	2,471	3,927
Federal Home Loan Bank advances	202	198	589	632
Junior Subordinated Debt	94	94	281	281
Total interest expense	<u>1,016</u>	<u>1,430</u>	<u>3,341</u>	<u>4,840</u>
Net interest income before provision for credit losses	9,585	7,740	27,751	21,439
Allowance for credit losses (1)	-	500	335	1,600
Net interest income after provision for credit losses	<u>9,585</u>	<u>7,240</u>	<u>27,416</u>	<u>19,839</u>
Non-interest income:				
Service charges on deposit accounts	227	201	638	593
Rental income	89	89	264	264
Net gain on loan sales	951	786	2,459	1,803
Net securities gain	-	3	56	874
Other income	92	109	234	277
Total non-interest income	<u>1,359</u>	<u>1,188</u>	<u>3,651</u>	<u>3,811</u>
Non-interest expense:				
Salaries and employee benefits	3,326	2,573	9,496	7,727
Occupancy and equipment	394	415	1,227	1,222
Other expenses	1,830	1,246	4,704	3,923
Total non-interest expense	<u>5,550</u>	<u>4,234</u>	<u>15,427</u>	<u>12,872</u>
Income before provision for income taxes	5,394	4,194	15,640	10,778
Provision for income taxes	1,598	1,240	4,629	3,190
Net income	<u>\$ 3,796</u>	<u>\$ 2,954</u>	<u>\$ 11,011</u>	<u>\$ 7,588</u>
Basic earnings per common share	\$ 0.63	\$ 0.49	\$ 1.81	\$ 1.25
Diluted earnings per common share	\$ 0.63	\$ 0.49	\$ 1.81	\$ 1.25
Basic weighted average shares of common stock outstanding	6,073	6,070	6,071	6,070
Diluted weighted average shares of common stock outstanding	6,073	6,074	6,073	6,073

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

SUMMIT STATE BANK
BALANCE SHEETS
(In thousands except share data)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 37,772	\$ 30,826	\$ 24,257
Total cash and cash equivalents	<u>37,772</u>	<u>30,826</u>	<u>24,257</u>
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$68,507, \$66,335 and \$58,390)	68,803	67,952	60,001
Total investment securities	<u>68,803</u>	<u>67,952</u>	<u>60,001</u>
Loans, less allowance for credit losses of \$11,453, \$8,882 and \$8,393 (1)	792,504	745,939	726,859
Bank premises and equipment, net	5,772	5,994	6,129
Investment in Federal Home Loan Bank stock, at cost	4,320	3,429	3,429
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	<u>9,302</u>	<u>7,595</u>	<u>9,014</u>
Total assets	<u>\$ 922,592</u>	<u>\$ 865,854</u>	<u>\$ 833,808</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 229,557	\$ 199,097	\$ 200,352
Demand - interest-bearing	115,253	88,684	76,694
Savings	47,251	42,120	37,132
Money market	163,640	167,113	140,008
Time deposits that meet or exceed the FDIC insurance limit	31,279	35,765	35,160
Other time deposits	<u>162,027</u>	<u>193,516</u>	<u>198,680</u>
Total deposits	749,007	726,295	688,026
Federal Home Loan Bank advances	80,000	53,500	61,300
Junior subordinated debt	5,887	5,876	5,873
Accrued interest payable and other liabilities	<u>5,715</u>	<u>4,554</u>	<u>5,185</u>
Total liabilities	<u>840,609</u>	<u>790,225</u>	<u>760,384</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,077,100, 6,069,600 and 6,069,600	37,014	36,981	36,981
Retained earnings	44,761	37,510	35,309
Accumulated other comprehensive income, net	<u>208</u>	<u>1,138</u>	<u>1,134</u>
Total shareholders' equity	<u>81,983</u>	<u>75,629</u>	<u>73,424</u>
Total liabilities and shareholders' equity	<u>\$ 922,592</u>	<u>\$ 865,854</u>	<u>\$ 833,808</u>

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		As of and for the Nine Months Ended	
	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)	September 30, 2021 (Unaudited)	September 30, 2020 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 9,585	\$ 7,740	\$ 27,751	\$ 21,439
Provision for credit losses (5)	-	500	335	1,600
Non-interest income	1,359	1,188	3,651	3,811
Non-interest expense	5,550	4,234	15,427	12,872
Provision for income taxes	1,598	1,240	4,629	3,190
Net income	<u>\$ 3,796</u>	<u>\$ 2,954</u>	<u>\$ 11,011</u>	<u>\$ 7,588</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.63	\$ 0.49	\$ 1.81	\$ 1.25
Diluted earnings per common share	\$ 0.63	\$ 0.49	\$ 1.81	\$ 1.25
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Book value per common share (1)	\$ 13.51	\$ 12.10	\$ 13.51	\$ 12.10
Selected Balance Sheet Data:				
Assets	\$ 922,592	\$ 833,808	\$ 922,592	\$ 833,808
Loans, net (5)	792,504	726,859	792,504	726,859
Deposits	749,007	688,026	749,007	688,026
Average assets	898,680	830,976	886,794	771,638
Average earning assets	881,444	814,013	870,288	754,749
Average shareholders' equity	81,234	73,018	78,109	70,528
Nonperforming loans	416	267	416	267
Total nonperforming assets	416	267	416	267
Troubled debt restructures (accruing)	2,146	2,203	2,146	2,203
Selected Ratios:				
Return on average assets (2)	1.68%	1.41%	1.66%	1.31%
Return on average common shareholders' equity (2)	18.54%	16.05%	18.85%	14.33%
Efficiency ratio (3)	50.71%	47.44%	49.22%	52.81%
Net interest margin (2)	4.31%	3.77%	4.26%	3.78%
Common equity tier 1 capital ratio	10.14%	10.65%	10.14%	10.65%
Tier 1 capital ratio	10.14%	10.65%	10.14%	10.65%
Total capital ratio	12.25%	12.90%	12.25%	12.90%
Tier 1 leverage ratio	8.54%	8.10%	8.54%	8.10%
Common dividend payout ratio (4)	19.18%	24.64%	19.84%	28.80%
Average shareholders' equity to average assets	9.04%	8.79%	8.81%	9.14%
Nonperforming loans to total loans	0.05%	0.04%	0.05%	0.04%
Nonperforming assets to total assets	0.05%	0.03%	0.05%	0.03%
Allowance for credit losses to total loans (5)	1.42%	1.14%	1.42%	1.14%
Allowance for credit losses to total loans excluding PPP (5)*	1.48%	1.31%	1.48%	1.31%
Allowance for credit losses to nonperforming loans (5)	2756.36%	3146.32%	2756.36%	3146.32%

(1) Total shareholders' equity divided by total common shares outstanding.

(2) Annualized.

(3) Non-interest expenses to net interest and non-interest income, net of securities gains.

(4) Common dividends divided by net income available for common shareholders.

(5) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

***Non-GAAP Financial Measures:**

This news release contains a non-GAAP (Generally Accepted Accounting Principles) financial measure in addition to results presented in accordance with GAAP for the allowance for credit losses to total loans excluding PPP loans. The Bank has presented this non-GAAP financial measure in the earnings release because it believes that it provides useful information to assess the Bank's allowance for credit loss reserves. This non-GAAP financial measure has inherent limitations, is not required to be uniformly applied, and is not audited. Further, this non-GAAP financial measure should not be considered in isolation or as a substitute for the allowance for credit losses to total loans determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other financial institutions. Reconciliation of the GAAP and non-GAAP financial measurement is presented below.

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
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(In thousands)

Allowance for Credit Losses (ACL) on loans to Loans receivable, excluding SBA PPP loans

Allowance for credit losses on loans (1)	\$ 11,453	\$ 11,482	\$ 11,476	\$ 8,882	\$ 8,393
Loans receivable (GAAP)	\$ 803,957	\$ 765,461	\$ 761,416	\$ 754,820	\$ 735,252
Excluding SBA PPP loans	<u>32,126</u>	<u>48,166</u>	<u>32,032</u>	<u>69,583</u>	<u>96,710</u>
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 771,831</u>	<u>\$ 717,295</u>	<u>\$ 729,384</u>	<u>\$ 685,237</u>	<u>\$ 638,542</u>
ACL on loans to Loans receivable (GAAP)	1.42%	1.50%	1.51%	1.18%	1.14%
ACL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.48%	1.60%	1.57%	1.30%	1.31%

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.